Senate Budget and Fiscal Review—Denise Moreno Ducheny, Chair

SUBCOMMITTEE NO. 2 Agenda

Alan Lowenthal, Chair
Darrell Steinberg
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Monday, April 9, 2007
1:00 p.m.
Room 112

Resources—Environmental Protection—Energy

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3840 Delta Protection Commission

Background. The Delta Protection Commission (DPC) was created by statute in 1992 to develop a long-term resources management plan for land uses within the Sacramento-San Joaquin Delta. This plan is implemented by local governments in their land use planning processes. Broadly speaking, the main goal of the commission is to protect and enhance the overall quality of the Delta environment for agriculture, wildlife habitat, and recreational activities.

Governor's Budget. The Governor's budget proposes a small increase in funding for the DPC. The increase in funding will support small increases in salaries and operating expenses at the DPC.

Staff Recommendation. Staff recommends the Subcommittee approve the commission's budget as proposed.

3680 Department of Boating and Waterways

Background. The Department of Boating and Waterways (DBW) is responsible for planning and developing boating facilities on waterways throughout California. It is also responsible for protecting the public's right to safe boating by providing subventions to local law enforcement agencies. The department is also responsible for boating safety and education, licensing yachts, aquatic weed control in the Sacramento-San Joaquin Delta, and beach erosion control along California's coast.

Governor's Budget. The Governor's Budget proposes $76.7 million to support DBW, which is approximately 12 percent less than expenditures in the current year. (The majority of DBW's budget is not subject to appropriation in the budget act. Only $500,000 is subject to the Budget Act.) The department is not supported by the General Fund.

Summary of Expenditures *(dollars in thousands)*	**2006-07**	**2007-08**	**$ Change**	**% Change**
Type of Expenditure				
Boating Facilities	$ 59,117	$ 49,561	-$9,556	-16.2
Boating Operations	20,519	20,678	159	0.8
Beach Erosion Control	1,641	311	-1,330	-81.1
Capital Outlay	6,045	6,140	95	1.6
Administration	2,447	2,361	-86	-3.5
less distributed administration	*-2,447*	*-2,361*	*86*	*-3.5*
Total	$ 87,322	$ 76,690	-$10,632	-12.2
Funding Source				
General Fund	$ -	$ -	$ -	0
Special Funds	1,250	500	-750	-60
Budget Act Total	*1,250*	*500*	*-750*	*-60*
Federal Trust Fund	13,499	10,036	-3,463	-25.6
Reimbursements	1,015	1,015	0	0
Harbors and Watercraft Revolving Fund	71,558	65,139	-6,419	-9.9
Total	$ 87,322	$ 76,690	-$10,632	-13.2

Vote-Only Items

1. Project Planning

Background. The Legislature has traditionally provided departments that have large capital outlay programs with funds to prepare capital outlay budget packages. These budget packages are planning studies that include engineering site surveying, aerial surveying for development of topographic maps, cost estimating, environmental permitting, and assistance from other state agencies to identify potential site problems.

Governor's Budget. The Governor's Budget proposes $90,000 from the Harbors and Watercraft Revolving Fund to complete budget packages for major and minor capital outlay projects.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

2. Minor Projects Summary

Background. The Department of Boating and Waterways is responsible for the planning, design, and construction of public boating facilities and small craft harbors within the state. Minor capital outlay projects for the Resources Agency are defined as capital outlay projects less than $500,000 in total cost.

Governor's Budget. The Governor's Budget proposes $6,050,000 from the Harbors and Watercraft Revolving Fund to assist local governments with 17 minor capital outlay projects for recreational boating.

The proposed projects are:

- Emergency Repairs
- Boating Trails
- Low Water Improvements
- Lake Perris Marina Buildings
- Crown Cove BISC Boat Ramp and Docks
- Folsom Lake Granite Bay Stage I Ramp Widening
- Lake Perris Power Cove Ramp Extension
- Lake Perris Ramp 6 Replacement
- Lake Oroville Bloomer Boat-In Campground
- Lake Oroville Lime Saddle Ramp Widening
- San Louis Reservoir High Wind Warning Lights
- Turlock Lake Restroom
- Lake Perris Marina ADA Access
- Castaic Lake East Ramp Wave Attenuator
- Lake Davis Launch Ramp Improvements
- Silverwood Lake Oak/Chamise Boat-In Site Improvements

- Silverwood Lake Sawpit Boarding Float Improvements

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3. Public Small Craft Harbor Loans

Background. The Department of Boating and Waterways' (DBW) goal is to expand and improve public boater access to California's waterways in environmentally acceptable areas. The demand for DBW boating facilities is driven mainly by aging existing facilities and the continued need for expanded and improved boating safety. The number of registered boats in the state is 968,000, and that number has not grown significantly since 2001.

Governor's Budget. The Governor's Budget proposes $12,075,000 from the Harbors and Watercraft Revolving Fund for public loans to develop marinas and expand/rehabilitate existing marina facilities. The proposed projects are:

- Dana Point Marina - $4.8 million
- Emergency Loans - $500,000
- Sacramento Marina - $1,475,000
- San Francisco Marina - $5.3 million

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

4. Launching Facility Grants

Background. The Department of Boating and Waterways (DBW) strives to expand and improve public boater access to California's waterways in environmentally acceptable areas. Two studies conducted for the DBW projected the current recreational boating infrastructure improvement and expansion over the next five years at $580 million.

Governor's Budget. The Governor's Budget proposes $12.9 million from the Harbors and Watercraft Revolving Fund for 20 grant projects for local governments.

The proposed projects would be for the construction of launching ramps, shore-side or floating restrooms, boarding floats, shore protection, car/trailer parking, utilities, and landscaping and irrigation.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

5. Private Loans

Background. The Department of Boating and Waterways (DBW) provides construction loans to owners of private marinas. The DBW Private Marina Loan Program provides loans to private marinas that may not be eligible for loans without the state program. The DBW states that traditional financial lending institutions are reluctant to provide improvement loans to marinas. Private marinas are eligible for Small Business Association loans up to $750,000, but about 25 percent of the loans DBW gives to private marinas are over $750,000.

AB 1284 (1980) declared that the Harbors and Watercraft Revolving Fund could be used for loans to private marinas. To date, DBW has provided about $50 million in loans to private recreational marina owners.

Governor's Budget. The Governor's Budget proposes $6 million from the Harbors and Watercraft Revolving Fund for loans to private marinas.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Discussion Items

6. Aquatic Pest Control Technicians

Background. Two invasive aquatic plants, the water hyacinth and *Egeria densa*, have been found in the Sacramento and San Joaquin Rivers. These aquatic plants contribute to the degradation of native habitat and decline of the overall environmental health of the Delta region.

In the *2005-06 Budget Act*, the Legislature provided the Department of Boating and Waterways with $85,000 from the Harbors and Watercraft Revolving Fund for two positions to work on aquatic weed control. The *2005-06 Budget Act* stipulated that DBW contract with the California Conservation Corps (CCC) for these two positions. However, DBW has been unable to retain CCC employees due to various reasons including lack of interest on the part of CCC participants, transportation difficulties for youth, and poor job performance on the part of one candidate.

The DBW currently has nine Aquatic Pest Control Technicians and four Aquatic Pest Control Technicians. There are two employees in each boat that works on aquatic weed control.

Governor's Budget. The Governor's Budget proposes a fund transfer of $85,000 from the interdepartmental contracting budget account to salaries and wages for two Aquatic Pest Control Technician positions. The money is all within the Harbors and Watercraft Revolving Fund.

Questions:

1. What is the impact of these invasive plants on the aquatic environment?
2. What steps is the department taking to ensure that the herbicides do not negatively impact water quality?

3. What impact may these herbicides have on fish?

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

7. Abandoned Watercraft Abatement Fund

Background. The Abandoned Watercraft Abatement Fund (AWAF) is used for the removal of abandoned recreational watercraft and water hazards, and in so doing improve public safety of California's waterways. The program was created in 1998, and since then DBW has provided over $3.3 million to local governments for removal of vessels and other water hazard projects. Statute sets the local match for grants at ten percent.

Governor's Budget. The Governor's Budget proposes $200,000 from the Abandoned Watercraft Abatement Fund for the administration of the Abandoned Watercraft Abatement Fund program.

Staff Analysis. A clerical error in the budget shows the transfer as $500,000, rather than the intended $200,000. The administration submitted an April Finance Letter to correct this mistake. The Finance Letters are being heard on May 7 and May 14.

Staff Recommendation. Hold open until May hearing on Finance Letters.

8. Quagga Mussel Invasion – Informational Item

Background. A highly invasive fresh-water Quagga Mussel, related to the Zebra Mussel, was discovered in California on January 17, 2007. The Quagga Mussel was found in Lake Havasu and on the Metropolitan Water District intake pumps. The Department of Fish and Game has expressed concern that the species could cause potentially wide-spread damage to drinking water pumping systems and other related infrastructure, as well as to fish by removing nutrients from the water.

Questions:

1. What is the Department of Boating and Waterways doing to contain the Quagga Mussel?
2. Could the capital outlay funds requested as part of the *2007-08 Budget* be used for boat-washing stations to keep the Quagga Mussel from spreading?

Staff Recommendation. No Action, informational item.

3860 Department of Water Resources

State Water Project

Background. The Department of Water Resources (DWR), and the activities it and regional and local water agencies engage in to pump and convey water throughout the state, results in the consumption of enormous amounts of energy and in the creation of significant greenhouse gas emissions.

According to the California Energy Commission (CEC), water-related energy use, which includes the conveyance, storage, treatment, distribution, wastewater collection, treatment, and discharge sectors of the water use cycle, consumes about 19 percent of the state's electricity, 30 percent of its natural gas, and 88 billion gallons of diesel fuel every year and this demand is growing.

In addition, the sources of the electricity used for water transport purposes are of increasing interest as state government proceeds to implement the greenhouse gas emissions targets established under law last year. It is of particular concern that, as the state has prohibited its public and private utilities from procuring high polluting coal power, DWR itself continues to own and operate a high polluting conventional coal facility in Nevada, as well as other fossil fuel facilities elsewhere.

Finally, most water experts contend that increased efforts to improve, conserve, and use water more efficiently also provides significant energy savings.

Governor's Budget. Despite a significant set of expenditures on climate-related activities in other agencies' budgets, there is no appropriation or budgetary language that addresses the Department of Water Resources' projects caused greenhouse gas emissions.

Staff Recommendation. Staff recommends that the Subcommittee direct DWR to provide information on how much energy is used in water delivery systems within California; how much energy DWR uses and what the sources of that energy are; and what steps DWR is taking to reduce its energy consumption and coal power usage. Staff further recommends that the Subcommittee direct staff to draft trailer bill language or supplemental report language to ensure DWR undertakes all feasible and cost-effective efforts to reduce its greenhouse gas emissions.

Energy Resources Scheduling Division

Background. The Department of Water Resources' California Energy Resources Scheduling (CERS) division manages billions of dollars of long-term electricity contracts. The CERS division was created in 2001 during the state's energy crisis to procure electricity on behalf of the state's three largest investor-owned utilities (IOUs). The CERS division continues to be financially responsible for the long-term contracts entered into by the department. (Funding for the contracts comes from ratepayer-supported bonds.) However, the IOUs manage the receipt and delivery of the energy procured by the contracts.

Governor's Budget. The Governor's Budget proposes $5.6 billion to fund the CERS division of the Department of Water Resources (DWR). This is $212 million, or 3.7 percent, below estimated expenditures in the current year, which reflects a slight reduction in the amount of electricity purchased under contract for the budget year. These funds are not subject to appropriation in the budget bill.

Summary of Expenditures *(dollars in thousands)*	**2006-07**	**2007-08**	**$ Change**	**% Change**
Type of Expenditure				
Electricity Purchases	$ 4,859,909	$ 4,643,218	-$216,691	-4.5
Interest Expense - Revenue Bonds	460,841	441,269	-19,572	-4.2
Payment of Principal - Revenue Bonds	447,690	470,140	22,450	5
Administration	21,422	22,584	1,162	5.4
Total	$ 5,789,862	$ 5,577,211	-$212,651	-3.7

Staff Recommendation. Staff recommends the Subcommittee approve the CERS budget as proposed.

3360 Energy Resources Commission

Background. The Energy Resources Conservation and Development Commission (commonly referred to as the California Energy Commission or CEC) is responsible for forecasting energy supply and demand; developing and implementing energy conservation measures; conducting energy-related research and development programs; and siting major power plants.

Governor's Budget. The Governor's Budget proposes $399 million to support CEC in 2007-08. The proposed budget is approximately 18 percent less than estimated expenditures in the current year due to a reduction in renewable energy and PIER funding. The department does not receive any General Fund support.

Summary of Expenditures *(dollars in thousands)*	**2006-07**	**2007-08**	**$ Change**	**% Change**
Type of Expenditure				
Regulatory and Planning	$ 27,025	$ 27,757	$ 732	2.7
Energy Resources Conservation	33,989	47,510	13,521	39.8
Research and Development	451,043	343,556	-107,487	-23.8
Administration	13,653	13,199	-454	-3.3
less distributed administration	-13,653	-13,199	454	-3.3
less loan repayments	-2,422	-1,522	900	-37.1
Total	$ 509,635	$ 417,301	-$92,334	-18.1
Funding Source				
General Fund	$0	$0	$0	0
Special Funds	491,912	399,166	-92,746	-18.8
Budget Act Total	*491,912*	*399,166*	-92,746	*-18.8*
Federal Funds	11,978	12,390	412	3.4
Reimbursements	5,745	5,745	0	0
Total	$ 509,635	$ 417,301	-$92,334	-18.1

NOTE: Climate change related budget change proposals will be heard on April 16th with other AB 32 implementation proposals. The specific budget change proposals for the California Energy Commission to be heard on April 16th are: 1) Climate Change: Increasing the Use of Alternative Fuels, and 2) Energy Related Climate Strategy Analysis.

Vote-Only Items

1. Appliance Standards Enforcement

Background. The California Energy Commission (CEC) Appliance Efficiency Program intends to increase the efficiency of appliances sold or offered for sale to California consumers and businesses. The Warren-Alquist Act directed the CEC to develop, implement, and enforce standards on appliances for minimum efficiencies or maximum energy consumption allowances for affected appliances.

The Appliance Efficiency Regulations are designed to:
- Establish efficiency standards for non-federally regulated appliances.
- Specify testing, labeling, and marking requirements.
- Specify data collection for most products.
- Provide rules for enforcing the standards.

Increasingly, the CEC's appliance standards are focusing on consumer electronics, which are often manufactured outside of the United States and may be sold through the Internet. To comply with these standards, all manufacturers and parties involved in the sale and distribution of affected appliances must: 1) identify whether each of their products meets the standards and are lawful to sell in California; 2) notify their customers that particular products are not allowed to be sold in California; and 3) track their sales transactions into California to stop transactions that would result in an unlawful sale of a non-complying product.

Governor's Budget. The Governor's Budget proposes $118,000 from the Energy Resources Programs Account for one permanent position for appliance efficiency standards enforcement.

Staff Analysis. The CEC has calculated that if 30 percent of appliances are non-compliant with the 2004 appliance standards, the loss in energy savings would be 800 GWh, 4.9 million therms, and 42 peak megawatts for each year of appliance sales. These numbers suggest that compliance with appliance standards is a serious greenhouse gas issue, as energy production is closely linked to greenhouse gases.

Staff Recommendation. Staff recommends the Subcommittee approve the budget request.

2. Expanding California's Electricity Demand Forecast Capabilities to Implement the State's Resource Adequacy Commitments

Background. Since the 1970s, the California Energy Commission (CEC) has been the state's primary source for long-term (10-20 years) forecasts of electricity and natural gas demands. These long-term energy forecasts have become a key component of the CEC's Integrated Energy Policy Report and the Public Utilities Commission (PUC) long-term planning process. These forecasts are important for planning for future need and resource capacity. Currently, the CEC conducts long-term forecasting and some short-term forecasting.

Short-term forecasts of electricity and natural gas require the CEC to compile data for nearly 40 investor-owned utilities, publicly owned utilities, retail service providers, and community choice aggregators; adjust the results based on in-house forecasts; and return the results within three months.

Governor's Budget. The Governor's Budget proposes $399,000 from the Energy Resources Program Account for two permanent positions and contracts ($150,000) to support the state's responsibilities for load serving entity forecast analysis and short-term forecasts of electricity demand for assessing electric supply resource adequacy.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3. Implement AB 549: Improving Energy Efficiency in Existing Homes

Background. Many homes were constructed in California prior to the first Building Energy Efficiency Standards (Building Standards) taking effect in 1978. The California Energy Commission (CEC) indicates that there are approximately eight million homes that were constructed prior to the Building Standards taking effect.

The CEC is required by Public Resources Code Section 25942 to establish regulations for a Home Energy Rating System (HERS) to certify home energy rating services in California. The California HERS program currently includes field verification and diagnostic testing of energy systems through CEC-certified providers.

AB 549 (Longville, 2001) required the CEC to provide a report to the Legislature on ways to decrease wasteful peak load energy consumption in existing residential and non-residential buildings. In the resulting AB 549 report, the CEC found that one of the potential strategies was a time-of-sale energy inspection. The time-of-sale strategy focuses on conducting energy ratings on homes when the properties are up for sale. The home buyer would be provided a report that allows for comparison of the energy efficiency of the home compared to other homes and that recommends cost-effective measures to reduce future utility bills.

Governor's Budget. The Governor's Budget proposes $534,000 ($226,000 on-going and $308,000 one-time) from the Energy Resources Program Account for two permanent positions and contracts to implement a time-of-sale energy rating program for existing homes in California.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

4. Energy Efficiency Planning in Publicly Owned Utilities and Air Conditioning Efficiency Improvement

Background. AB 2021 (Levine, 2006) requires increased energy efficiency in publicly owned utilities and improvements in air-conditioner efficiency. Specifically, AB 2021 requires the California Energy Commission (CEC) to:

- Develop a statewide estimate of all potentially achievable cost-effective electricity and natural gas efficiency savings and establish statewide annual targets for energy efficiency savings and demand reduction over 10 years.
- Investigate options and develop a plan to improve the energy efficiency of, and to decrease the peak electricity demand of, air conditioners in the state.
- Provide recommendations to the local publicly owned electric utility, the Legislature, and the Governor on energy efficiency improvements.

Governor's Budget. The Governor's Budget proposes $118,000 from the Energy Resources Program Account for one permanent position to support the state's expanded responsibilities for energy efficiency.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

5. Conduct Evaluation of Self Generation Incentive Program

Background. The Public Utilities Commission's (PUC) Self Generation Program was started in 2001 to support larger-scale clean, distributed generation technologies. Distributed generation, also known as net metering, allows consumers who are producing electricity to sell that energy back to the power grid. The program provides rebates for various renewable technologies, such as wind and fuel cells (solar is excluded). The program focuses on systems between 30kW and 5MW.

AB 2778 (Lieber, 2006) requires the California Energy Commission (CEC), on or before November 1, 2008, in consultation with the PUC and the Air Resources Board, to evaluate the costs and benefits of providing ratepayer subsidies for renewable and fossil fuel "ultraclean and low-emission distributed generation," as part of the CEC integrated energy policy report.

Governor's Budget. The Governor's Budget proposes $500,000 in one-time funds from the Renewable Resource Trust Fund for contract funds to conduct an evaluation of the PUC's Self Generation Incentive Program.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

6. Implementing Public Purpose Natural Gas Research

Background. AB 1002 (Wright, 2000) directed the Public Utilities Commission (PUC) to provide cost-effective energy efficiency and conservation activities, as well as public interest research and development for natural gas. This research program is funded by a surcharge on California's natural gas ratepayers. The collected funds are deposited into the Gas Consumption Surcharge Fund, which is continuously appropriated to the PUC. In August 2004, the PUC issued decision D.04-08-010 approving the public purpose natural gas research program, which would transfer up to $24 million annually to the California Energy Commission (CEC) to conduct natural-gas related energy research.

CEC has been working to incorporate natural gas research into its existing PIER program since 2004. Currently, the CEC natural gas research program has a total of ten positions. The current program budget is approximately $18 million. The program has been primarily focusing on energy efficiency and targeted technology research. SB 76 (2005) included transportation-related research to the CEC natural-gas program.

Governor's Budget. The Governor's Budget proposes $471,000 from the Gas Consumption Surcharge Fund for four permanent positions to conduct research related to transportation, climate change, and air quality.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

7. Building Standards and Compliance Enforcement

Background. The Warren-Alquist Act directed the reduction of wasteful, uneconomic, inefficient, or unnecessary energy consumption. In 1978, the first Building Energy Efficiency Standards (Building Standards) went into effect to meet the statutory direction of the Warren-Alquist Act. Building Standards address the design and construction of all major energy-using equipment in buildings and are required by stature to be performance standards that provide wide flexibility for designers and builders to use features and methods that are optimal for each particular building or development. Building Standards address new construction and additions or modifications to existing buildings.

The CEC states that it receives regular comments and complaints that the Building Standards are not being consistently enforced in the field. Cities and counties are required to enforce the Building Standards, but many of them focus on their traditional missions of health and safety rather than incorporating energy savings into their inspections. There are over 500 building departments in the state.

Governor's Budget. The Governor's Budget proposes $693,000 ($285,000 on-going, $408,000 one-time) from the Energy Resources Program Account for Building Energy Efficiency Standards compliance and enforcement.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

8. Implement Renewable Portfolio Standard

Background. SB 107 (Simitian, 2006) accelerated the state's Renewable Portfolio Standard (RPS) program to reach 20 percent of electricity retail sales through renewable energy by 2010, rather than 2017. The funds for the RPS come from AB 1890 (Brulte, 1996), an authorized system benefit charge on utility ratepayers to support existing, new, and emerging renewable resources among other public goods.

To address the requirements of SB 107, the CEC is proposing to:

- Track the RPS performance of California's 36 publicly owned utilities.
- Certify renewable energy credits based on eligibility criteria.
- Develop and implement a process to certify incremental generation from the repowering, expansion, or refurbishing of eligible existing out-of-state facilities.
- Provide supplemental energy payments to cover the above market costs of RPS-eligible procurement, subject to caps that the CEC can impose.

Governor's Budget. The Governor's Budget proposes $336,000 from the Renewable Resource Trust Fund for three permanent positions to implement expanded mandates of the California Renewable Portfolio Standard.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

9. Administer Existing Renewable Facilities Program

Background. SB 90 (Sher, 1997) authorized the California Energy Commission (CEC) to establish the Renewable Energy Program to distribute funds as incentives for the deployment of renewable energy generation facilities. SB 1250 (Perata, 2006) directs the CEC to undertake an evaluation of renewable energy facilities (solid fuel biomass, solar thermal, and wind) that seek funding incentives from the CEC under the Renewable Energy Program.

Governor's Budget. The Governor's Budget proposes $118,000 from the Renewable Resource Trust Fund for one permanent position to implement the requirements of SB 1250.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

10. Electricity Resource Planning

Background. AB 1632 (Blakeslee, 2006) requires the California Energy Commission (CEC) as part of its Integrated Energy Policy Report to compile and assess existing scientific studies to determine the potential vulnerability of existing large baseload generation facilities – 1,700 megawatts or greater – to major disruption due to plant aging or an earthquake. According to AB 1632, the study must be completed by November 1, 2008. California only has four plants with baseload generation of 1,700 or greater: 1) Diablo Canyon nuclear plant, 2) San Onofre nuclear plant, 3) Los Alamitos, and 4) Moss Landing.

Governor's Budget. The Governor's Budget proposes $800,000 one-time funds from the Energy Resources Programs Account for contract funds to complete the study required by AB 1632.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

11. Implement Efficient Solar Homes

Background. In 2006, response to the Million Solar Roof Initiative, the California Energy Commission (CEC) and the Public Utilities Commission (PUC) jointly initiated a ten-year program to expand 30 times the number of energy efficient, solar-powered homes in California by 2017. Starting January 2007, CEC will launch a $350 million New Solar Homes Partnership. This program will collaborate with home builders and the solar industry. The program funds will be used to provide rebates. The CEC will be responsible for new residential construction, and the PUC will be responsible for commercial and existing residential buildings.

The CEC is proposing to contract out to a third party for the processing of rebate requests. Processing requests is a labor-intensive effort.

Governor's Budget. The Governor's Budget proposes $148,000 from the Energy Resources Program Account for one permanent position, contract funds, and travel funds to administer the New Solar Homes Partnership.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Discussion Items

12. Petroleum Industry Reporting and Reducing Petroleum Use

Background. The California Energy Commission (CEC) gathers data on the petroleum industry in order to understand and identify what infrastructure is needed, where it is needed, and how soon it will be needed. The work on petroleum availability is driven by:

- Responses to retail price spikes exacerbated by crude oil and wholesale petroleum product prices, physical constraints in California's marine infrastructure, and the transportation fuel industry's storage capacity.
- Rapid response to fuel supply disruptions caused by unplanned disruptions such as refinery outages or pipeline ruptures.

- Research and studies to identify actions that help alleviate the conditions that cause price and supply problems for California.
- Development of programs that will mitigate the impacts of high gasoline and diesel prices and severe price volatility.

AB 844 (Nation, 2003) required the CEC to test tires replacing original equipment, determine if standards for mileage efficiency were appropriate and, if they were, to adopt minimum fuel efficiency standards for replacement tires and inform consumers about test results.

As part of the work on replacement tire fuel efficiency, the CEC intends to undertake a study on tire recycling impact.

Governor's Budget. The Governor's Budget proposes $953,000 from the Energy Resources Program Account for two new permanent positions; make two limited-term positions permanent; and $500,000 in baseline contract funds.

Staff Analysis. The CEC is not the appropriate agency to study the impact of recycling tires. The California Integrated Waste Management Board (CIWMB) should be the agency to conduct the study, since the CIWMB is the agency responsible for tire recycling.

Staff Recommendation. Staff recommends the Subcommittee approve $953,000 for two new permanent positions; make two limited-term positions permanent; and $500,000 in baseline contract funds. Staff recommends the Subcommittee advice the department that these funds shall not be used toward a study on the impact of tire recycling.

13. PIER Electricity Program Implementation

Background. The Public Interest Energy Research (PIER) program develops technology and provides information on energy policy. PIER aims to improve and maintain energy system reliability; promote economic growth; and protect the environment and public health.

The PIER program is funded by a surcharge on electricity ratepayers. To date, PIER has provided $488 million to projects related to buildings' end-use efficiency, industrial agriculture and water end-use efficiency; renewables; environmentally preferred advanced generation; energy systems integration; and environmental impacts of energy.

Governor's Budget. The Governor's Budget proposes $418,000 from the Public Interest Research, Development, and Demonstration Fund for three permanent positions for the PIER electricity program. These positions would work on climate change, renewables, and electricity distribution research.

Staff Analysis. Climate change is a real concern that must be aggressively addressed. Devoting one position to monitoring, analysis, and modeling of regional climate, as well as analysis of options to reduce greenhouse gas emissions is not enough to tackle the major problem of climate change aggressively. Staff recommends the addition of three senior mechanical engineers at a cost of $328,000 annually. Two of these positions would work on climate change activities at PIER and one position would work on renewables at PIER.

Staff Recommendation. Staff recommends that the Subcommittee augment the Governor's request by adding three senior mechanical engineer positions at an annual cost of $328,000 from the Public Interest Research, Development, and Demonstration Fund.

14. Provide Photovoltaic and Energy Efficiency Project Funding and Assistance to California's K-12 Schools

Background. The Williams settlement agreement was entered into between the California Attorney General and the Williams Energy Marketing & Trading Company to settle a lawsuit filed against Williams by the Attorney General. Under the settlement, Williams will pay approximately $69 million to the state.

The California Energy Commission (CEC) is proposing to use the funds from the Williams settlement for a photovoltaic and energy efficiency program for public K-12 schools. This new program will provide grants, loans, and technical support contracts for combined photovoltaic and energy efficiency projects. This new program is proposed to be marketed and offered jointly with the CEC's existing Energy Conservation Assistance Account.

A portion of the funds would be used for a loan program for K-12 schools to purchase solar panels. The loan program will have repayments of no more than 30 equal semi-annual payments. These payments will reflect the energy savings of the project with a payback period averaging 12 years.

Governor's Budget. The Governor's budget proposes to use $24.8 million of Williams Energy settlement funds to fund a new Photovoltaic (PV) and Energy Efficiency program for public K-12 schools. The Governor's budget, as part of those funds, proposes to use $1,061,000 from the State Energy Conservation Assistance Account for four permanent positions to administer the Photovoltaic and Energy Efficiency Project for K-12 schools.

LAO Recommendation. The Legislature passed AB 2756 (Levine) which created a plan to expend Williams Energy settlement funds for energy efficiency retrofits of public schools and buildings. The legislation directed CEC, upon legislative appropriation, to provide grants to K-12 public schools and public universities or community colleges, based on specific criteria and expectations, for various energy conservation projects. The bill did not specify a specific energy technology, but rather allowed the schools to select the most effective energy efficiency projects to be submitted for grant consideration. The legislation was vetoed by the Governor in 2006.

Consistent with legislative intent in AB 2756, the LAO thinks that settlement funds should be awarded for a broader array of energy efficiency upgrades, beyond those that are PV in nature. Examples of other types of energy efficiencies are retrofitting heating and cooling systems, replacing lighting fixtures, improving insulation, and using alternative building materials.

To ensure legislative oversight and consistency with legislative intent for the use of the Williams Energy settlement funds, the LAO recommends that the budget request be denied and instead recommend the enactment of legislation directing the use of Williams Energy settlement funds (in accordance with the settlement agreement), such as was done in AB 2756.

Staff Recommendation. Hold open.

15. Implement Million Solar Roofs Program

Background. SB 1 (Murray, 2006) expanded the California Solar Initiative to include all municipal utilities; allowed consumers to sell back solar power that is produced on their solar panels beyond what they use themselves; required homebuilders to offer solar as an option in new homes; and required the California Energy Commission (CEC) to evaluate adding solar power to building codes.

SB 1 establishes the following new requirements for CEC:

- Beginning January 1, 2011, sellers of production homes must offer the option of a solar energy system to all their customers. The CEC must develop an offset program that allows a developer or seller of production homes to forgo the offer-requirement of a project by installing solar energy systems on other projects.
- By July 1, 2007, the CEC must initiate a public proceeding to study and make findings whether and under what conditions, solar energy systems should be required on new residential and non-residential buildings.
- By January 1, 2008, the CEC must, in consultation with the Public Utilities Commission and local publicly owned electric utilities, establish eligibility criteria for solar energy systems and to establish conditions for ratepayer funded incentives for all installations of solar energy systems on all types of buildings and facilities administered through all programs in the Million Solar Roofs Initiative.
- By January 1, 2008, the CEC must determine reasonable and cost-effective energy efficiency improvements in existing buildings as a condition of providing incentives for eligible solar energy systems, with appropriate exemptions or limitations to accommodate the limited financial resources of low-income housing.
- By January 1, 2010, the CEC must report to the Governor and Legislature on the costs and benefits of net energy metering and other topics.
- Requires the CEC to evaluate the costs and benefits of having an increased number of operational solar energy systems as part of the electrical system.
- Requires the CEC to conduct research related to its delivery of the rebate program for new homes.
- Requires the CEC to make information available to consumers, to provide educational materials and technical assistance to buildings and contractors, and to conduct random audits of solar energy systems to evaluate their operational performance.

Governor's Budget. The Governor's Budget proposes $486,000 from the Renewable Resource Trust Fund for four permanent positions to implement the Million Solar Roofs Program.

Staff Analysis. Some of the tasks that the four employees would be assigned to complete are short-term assignments. Thus staff recommends that two of the positions be made temporary two-year positions.

Staff Recommendation. Staff recommends that the subcommittee approve two permanent positions and approve two 2-year temporary positions, for $486,000 total, of which $236,000 is on-going.

16. Greenhouse Gases Emissions Performance Standard for Publicly Owned Utilities

Background. SB 1368 (Perata, 2006) requires that the California Energy Commission (CEC), in collaboration with the Air Resources Board and the Public Utilities Commission, develop and adopt a greenhouse gas emissions performance standard and implementing regulations for all baseload generation of publicly owned electric utilities by no later than June 30, 2007. SB 1368 also requires the CEC to implement a compliance monitoring and enforcement program, effective July 2007, to assure conformance with the performance standards for the public owned electric utilities.

Governor's Budget. The Governor's Budget proposes $122,000 from the Energy Resources Programs Account for one permanent position to conduct work associated with the requirements of SB 1368.

Staff Analysis. Climate change is a real concern that must be aggressively addressed. Devoting one position to monitoring, analysis, and modeling of regional climate, as well as analysis of options to reduce greenhouse gas emissions is not enough to tackle the major problem of climate change aggressively. Staff recommends addition of an Electric Generation System Specialist II for the task of implementing an enforcement program to assure conformance with the performance standard by publicly owned utilities.

Staff Recommendation. Staff recommends the Subcommittee augment the Governor's proposal by one Electric Generation System Specialist II at a cost of $122,000 (for a total of $244,000) from the Energy Resources Programs Account.

17. Transmission Corridor Zone Designation Process

Background. In its 2003 Energy Report, the California Energy Commission (CEC) noted that existing transmission planning and permitting processes lack important elements to assure that critically needed transmission infrastructure is approved and constructed in a timely manner to meet the state's growing demand for electricity. SB 1059 (Escutia, 2006) provided CEC with the authority to designate transmission corridor zones for future use to accommodate the needed electric transmission lines. The CEC can designate a transmission corridor zone on its own motion or by an application from an entity planning to construct a high-voltage electric transmission line within California.

In order to ensure that it can move forward with designating transmission corridor zones, the CEC intends to:

- Identify the long-term needs for electric transmission corridor zones within the state.
- Work with federal, state, and local agencies; stakeholders; and the public to study transmission corridor zone alternatives and designate appropriate transmission corridor zones for future use to ensure reliable and efficient delivery of electricity for California's residents.
- Integrate transmission corridor zone planning and designation at the state level with local land use planning processes, so that designated transmission corridor zones are considered by cities and counties when they are making land use decisions.

Governor's Budget. The Governor's Budget proposes $536,000 from the Energy Resources Program Account for four permanent positions in 2007-08, and proposes $1,019,000 from the Energy Resources Program Account for four additional permanent positions in 2008-09.

Staff Analysis. Staff is concerned that the Governor's proposal would make it easier for the PUC to exercise eminent domain to convert land use for transmission corridors. Staff recommends the Subcommittee adopt trailer bill language specifying that if the land being considered for a transmission corridor zone is a state park, or is already protected by an easement for habitat, oak woodlands, or wilderness preservation, that the matter of designating those lands as transmission corridor zones would have to be considered by the Public Works Board.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal and direct staff to write trailer bill language as specified in the staff analysis.

18. Renewable Energy Program Effectiveness – Informational Issue

Background. Under current law, investor owned utilities (IOUs) and other energy providers are required to obtain 20 percent of their delivered power from renewable sources (such as wind, small hydroelectric, and PV) by 2010. In furtherance of this statutory target, the CEC administers a renewable energy program funded by Renewable Resources Trust Fund (RRTF). The RRTF receives its funding from a surcharge on consumers' energy bills. The program provides incentives for the production and purchase of renewable energy. One component of the program is the provision of "supplemental energy payments" (SEPs) to renewable energy producers to cover above-market costs of producing renewable energy relative to nonrenewable sources. This program component is designed to make renewable energy more price-competitive for IOUs when IOUs seek energy contracts.

The CEC as well as Public Utilities Commission have indicated that the state is not on target to reach the 20 percent RPS goal by 2010 unless corrective action is taken. The CEC has recently completed an update to its statutorily required Integrated Energy Policy Report (IEPR) that includes recommendations for a number of midcourse changes to the renewable energy program, some of which may require statutory changes. Among the recommended changes are changes to the SEP process to address concerns that renewable energy producers have had difficulty securing financing for their projects, even with the potential of their receiving SEP production incentives. This has lead to fewer SEP claims, allowing RRTF to build up a substantial fund balance—projected to be $142 million at the end of the budget year.

LAO Recommendation. The LAO recommends the Legislature require the commission to report at hearings on its proposals to increase the effective use of RRTF, thereby reducing the fund balance.

Staff Recommendation. Informational item, no action.

8665 Consumer Power and Conservation Financing Authority

Background. The California Consumer Power and Conservation Financing Authority (CPA) was created in response to the 2000-01 energy crisis and was charged with assuring a reliable supply of power to Californians at reasonable rates, including planning for sufficient reserves. The administrative operations of the agency ceased in October 2004 and its last remaining program, the Demand Reserve Program, is scheduled to expire on June 30, 2007.

Governor's Budget. The Governor's Budget proposes to eliminate the CPA and transfer all remaining CPA funds (estimated at $2.5 million) to the Energy Commission for repayment of loans.

Legislative Counsel's Digest of Proposed Trailer Bill Language:

Existing law, the California Consumer Power and Conservation Authority Act, creates the California Consumer Power and Conservation Financing Authority, with powers and responsibilities as prescribed, including the issuance of revenue bonds, for the purposes of augmenting electric generating facilities and to ensure a sufficient and reliable supply of electricity, financing incentives for investment in cost-effective energy-efficient appliances and energy demand reduction, achieving a specified energy capacity reserve level, providing financing for the retrofit of inefficient electric powerplants, renewable energy and conservation, and where appropriate, developing strategies for the authority to facilitate a dependable supply of natural gas at reasonable prices to the public. The act creates in the State Treasury the California Consumer Power and Conservation Financing Authority Fund, and would continuously appropriate all money to the fund, except as specified, for the support of the authority. The act prohibits the authority from approving any new program, enterprise, or project, on or after January 1, 2007, unless authority to approve such an activity is granted by statute enacted on or before January 1, 2007.

This bill would repeal the California Consumer Power and Conservation Authority Act, and make other conforming changes.

LAO Recommendation. The LAO notes that CPA has long ceased its administrative operations, and the remaining program which it has been funding is scheduled to expire on June 30, 2007. The CPA has no other current or future activities authorized by statute. Consistent with the de facto termination of CPA under current law as of January 1, 2007, the budget proposes to formally eliminate CPA in statute and transfer remaining funds in the amount of $2.5 million to the California Energy Commission to repay loans made to CPA in 2002 and 2003. The LAO recommends approval of the Governor's proposal.

Staff Analysis. This is a policy matter that should be handled through a policy bill.

Staff Recommendation. Staff recommends the Subcommittee reject the proposed trailer bill language.

8770 Electricity Oversight Board

Background. The Electricity Oversight Board (EOB) was created as a result of energy deregulation and was intended to ensure that wholesale energy markets and the electric transmission system function reliably at a fair cost to consumers. The EOB investigates the structure, function, and competitiveness of markets for bulk energy, transmission, and generating capacity. The EOB also conducts oversight and performance evaluation of the California Independent System Operator. The EOB also represents the state before the Federal Energy Regulatory Commission, Federal Courts, and in regional forums.

Governor's Budget. The Governor's Budget proposes to eliminate the EOB, while providing it with $4.1 million in operations funding for 2007-08.

Summary of Expenditures *(dollars in thousands)*	**2006-07**	**2007-08**	**$ Change**	**% Change**
Type of Expenditure				
Administration	$ 4,073	$ 4,128	$ 55	1.3
Total	$ 4,073	$ 4,128	$ 55	1.3
Funding Source				
Special Funds	$ 4,073	$ 4,128	$ 55	1.3
Total	$ 4,073	$ 4,128	$ 55	1.3

Legislative Counsel's Digest of Proposed Trailer Bill Language:

(1) The existing restructuring of the electrical services industry provides for the authorization of direct transactions between electricity suppliers and end use customers and for the creation of the Independent System Operator and the Power Exchange. An Electricity Oversight Board is also created to, among other things, oversee the Independent System Operator and the Power Exchange, and to determine the composition and terms of service and to appoint the members of the governing boards of the Independent System Operator and the Power Exchange. Existing law makes the Electricity Oversight Board the appeal authority for majority decisions of the governing board of the Independent System Operator only with respect to prescribed matters, that would be subject to California's exclusive jurisdiction.

This bill would eliminate the Electricity Oversight Board and its prescribed functions. This bill would make conforming changes to existing law by removing references to the Electricity Oversight Board.

(2) Existing law requires the Independent System Operator governing board to be appointed by the Governor and to be confirmed by the Senate. Existing law requires these appointments to be for 3-year terms, with initial appointments of one member for a one-year term, 2 members for a 2-year term, and 2 members for a 3-year term. Existing law imposes prescribed requirements regarding the bylaws of the Independent System Operator and the Power Exchange.

This bill would make technical and conforming changes to existing law.

LAO Recommendation. Electricity Oversight Board's (EOB) primary duty at this time is to act as a market monitor, overseeing the state's electricity market, and initiating proceedings at Federal Energy Regulatory Commission (FERC) in response to market manipulation. The EOB has been a participant in over 400 proceedings at FERC and has been a litigant in over 100 cases in the federal courts of appeal. Through 2005-06, EOB has been a party to settlements of over $1 billion for various overcharges.

The EOB currently has a staff of 23 positions and a budget of $4.1 million, the majority of which comes from the fee-funded Public Utilities Commission Reimbursement Account. The EOB's governing board currently has not met since March 2003. Since that time, EOB staff has reported directly to the Governor's office.

The proposed trailer bill language to eliminate EOB does not specify how current workload and authority at the board would be transferred to other agencies. Rather, the proposed statutory language simply eliminates any references to the board in statute, and gives the Governor power to designate a successor for all of EOB's duties and authority including legal matters.

The LAO finds that while there may be merits in consolidating EOB's functions in another energy entity, the Governor's proposal is incomplete in that it does not address the energy-related activities in several other state entities, nor does it provide a plan on which state agency would be assuming EOB's current duties and workload. The issue of which state entity would assume EOB's duties is particularly relevant given that moving EOB's electricity market monitoring duties into certain other energy agencies raises potential conflicts of interest. The FERC requires that entities that monitor the electricity market be independent from any market participant or interest. Some of the state's energy entities—such as CEC and CERS—could be considered market participants. Additionally, EOB is currently involved in a number of FERC proceedings and litigation as noted above. The Governor's proposal is silent on who would be assuming EOB's role in these cases to ensure that the cases continue to be pursued aggressively on behalf of the state's ratepayers.

We think it is important to note that the EOB is currently fully operational and has ongoing workload, which, absent the Governor's proposal or another plan to reorganize the state's energy entities, would carry on into the budget and future years. The EOB's current workload includes involvement in about 240 cases pending at FERC. The EOB legal workload also includes over 100 items of appeal in the United States Court of Appeals. These cases, largely, are pursuing settlements for electricity price overcharges during the energy crisis, on behalf of the state's electricity ratepayers.

The LAO recommends the Legislature withhold action on the EOB budget, and require the administration to present at budget hearings a plan to assign EOB's duties and pending legal workload to other state agencies.

Staff Analysis. The Governor's Budget proposes to end the Electricity Oversight Board without moving the responsibilities of the EOB to other departments. Some departments that could be considered for current EOB duties are the Attorney General's Office, the Public Utilities Commission, and the California Energy Commission. The administration needs to submit to the Legislature a proposal to shift critical EOB functions to other agencies before a proposal to end the EOB can be considered.

Staff Recommendation. Staff recommends the Subcommittee reject the proposed trailer bill language to eliminate the Electricity Oversight Board. Staff further recommends the Subcommittee approve the proposed $4.1 million budget for the Electricity Oversight Board.

8660 Public Utilities Commission

Background. The California Public Utilities Commission (CPUC) is responsible for the regulation of privately owned "public utilities," such as gas, electric, telephone, and railroad corporations, as well as certain video providers and passenger and household goods carriers. The commission's primary objective is to ensure adequate facilities and services for the public at equitable and reasonable rates. The commission also promotes energy conservation through its various regulatory decisions.

Governor's Budget. The Governor's Budget proposes $1.2 billion to support the CPUC in the budget year. This is approximately the same level of funding as is estimated for expenditure in the current year. The commission does not receive any General Fund support.

Summary of Expenditures *(dollars in thousands)*	**2006-07**	**2007-08**	**$ Change**	**% Change**
Type Expenditure				
Regulation of Utilities	$ 375,297	$ 381,501	$ 6,204	1.6
Universal Service Telephone Programs	897,408	884,615	-12,793	-1.4
Regulation of Transportation	18,637	20,458	1,821	9.7
Administration	21,781	26,247	4,466	20.5
less distributed administration	*-21,781*	*-26,247*	*-4,466*	*20.5*
Total	$ 1,291,342	$ 1,286,574	-$4,768	-0.4
Funding Source				
General Fund	$0	$0	$0	0
Special Funds	1,277,329	1,269,575	-7,754	-0.6
Budget Act Total	*1,277,329*	*1,269,575*	*-7,754*	*-0.6*
Federal Funds	1,209	1,702	493	40.8
Reimbursements	12,786	15,297	2,511	19.6
Total	$ 1,291,324	$ 1,286,574	-$4,750	-0.4

NOTE: Climate change related budget change proposals will be heard on April 16th with other AB 32 implementation proposals. The specific budget change proposal for the Public Utilities Commission is: AB 32 – Climate Change Activities.

Vote-Only Items

1. Implement Demand Response and Advanced Metering Programs

Background. Currently, electrical utilities use standard analogue meters to measure customers' electricity usage. These analogue meters can only measure the total electricity usage of a customer and cannot break that usage down by time of day (or peak vs. non-peak usage). These analogue meters must be read by employees walking out to each meter and recording the usage amount manually.

Advanced metering (AMI) is the hardware and software that enables the utilities to record customer electricity usage by time of day. AMI will allow customers to participate in time-differentiated rates and demand response programs. AMI will also lower the utilities' operational costs.

Currently three large utilities, PG&E, Edison, and SDG&E, serving about 11 million ratepayers have stated their intent to install AMI. The PUC has already approved PG&E's $1.7 billion proposal to upgrade to AMI.

The PUC currently has 4 employees working on AMI implementation in overseeing existing demand response programs and providing technical review of applications to invest in advanced meter infrastructure.

Governor's Budget. The Governor's Budget proposes $211,000 from the Public Utilities Commission Utilities Reimbursement Account for two permanent positions to develop and implement new demand response programs.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

2. Increase Number of Rail Crossing Safety Staff

Background. The Public Utilities Commission (PUC) has statutory authority over approximately 14,200 highway and railroad crossings. As part of its responsibilities, the PUC determines the design of the crossings and the location of the crossings, as well as the terms of installation, operation maintenance, use, and warning devises.

In April 2005, the PUC issued its first-ever Rail Safety Action Plan. This plan included components for increasing railroad crossing safety, including:

- Identifying new construction projects that adversely impact rail safety and then initiating informational and other actions to ensure that rail safety is addressed before the project is built.
- Collecting and analyzing data on "near miss" incidents relative to rail crossings and along the rail right-of-way.

- Investigate rail-related fatalities and significant accidents, and apply the lessons learned to rail crossing diagnostic reviews, to rail corridor safety enhancements, and to operational safety enhancements that advance the cause of rail safety.
- Issue public reports regarding the root causes and significant contributing factors of all accidents investigated.

In 2006, there were 143 deaths related to rail crossings and people walking on the rails. During the same time period, there were another 417 injuries related to rail crossings and rail trespassing. Currently, the PUC has a staff of 19 positions to work on rail safety. However, in 2000-01, the PUC had a staff of 25 positions to work on rail safety.

Governor's Budget. The Governor's Budget proposes $86,000 in State Highway Account funds for one permanent position to increase rail crossing safety oversight activities.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

3. Railroads: Maintenance and Safety

Background. California has nearly 11,000 miles of railroad track. The condition of these tracks must be inspected routinely to ensure that railroad accidents do not occur. The railroad companies inspect the track with mechanical track inspection devises and are responsible for repairing damaged track. The Public Utilities Commission (PUC) must then inspect the track to ensure the maintenance was properly conducted. The PUC conducts assessments of railroad practices, facilities, and operations in order to address problem areas before an accident or incident occurs.

AB 1935 (Bermudez) required the PUC to increase the number of railroad inspections, as well as collect and analyze data on "near-miss" incidents. Currently, the PUC has 5.5 positions to handle this kind of work. These five positions were able to inspect 4,776 miles of track in 2006.

Governor's Budget. The Governor's Budget proposes $705,000 from the Public Utilities Commission Transportation Reimbursement Account for seven permanent positions to conduct safety inspections of railroad equipment and facilities.

Staff Recommendation. Staff recommends the Subcommittee approve the proposal as budgeted.

4. California Solar Initiative – Monitoring, Evaluation, and Consultants

Background. In January 2006, the Public Utilities Commission (PUC) adopted D.06-01-24, which designed the California Solar Initiative and began implementation steps. Also during

2006, the Legislature passed SB 1, the Million Solar Roofs bill. SB 1 includes multiple requirements, among them:

- Award monetary incentives for eligible solar energy systems.
- Award monetary incentives for up to the first one megawatt of electricity generated by an eligible solar energy system.
- Adopt a performance-based incentive program by 2008.
- Requires reasonable and cost effective energy efficiency improvements in existing buildings as a condition of providing incentives for the installation of solar energy systems.
- Requires time-variant pricing for all ratepayers with a solar energy system.
- Imposes a charge necessary to fund the California Solar Initiative on all electricity ratepayers except for low income ratepayers.

SB 1 provided $2.1 billion for the California Solar Initiative through investor-owned utility electricity ratepayer fees. The entire $2.1 billion is off-budget, and not subject to annual Legislative appropriation. SB 1 specified that up to ten percent of the $2.1 billion could be used for administrative purposes. SB 1 requires the PUC to measure and report on the costs and benefits of the California Solar Initiative and other related policies such as net metering and time of use pricing.

Governor’s Budget. The Governor’s Budget proposes $2,460,000 in reimbursements from the SB 1 monies for three positions and consulting costs for the PUC to implements, administer, and evaluate the California Solar Initiative. These funds are approximately one percent of the allowable administrative budget under SB 1.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

5. Renewables Portfolio Standard Program

Background. In 2006, the Legislature passed SB 107 (Simitian and Perata), with accelerates the existing Renewables Portfolio Standard (RPS) by requiring retail sellers of electricity to procure at least twenty percent of their retail sales from renewable power sources by 2010. SB 107 has multiple requirements, including:

- Accelerating the RPS goal of 20 percent renewable generation from 2017 to 2010.
- Requires the PUC, in consultation with the Energy Commission, to study the use of supplemental energy payments for short term contracts, and to submit a report to the Legislature by June 30, 2007.
- Allows renewable energy produced outside of California, but delivered to an in-state location, to count toward the RPS.

Governor’s Budget. The Governor’s Budget proposes $108,000 from the Public Utilities Commission Utilities Reimbursement Account for one new position.

The position would implement the Renewable Energy Credits program, set rules for and oversee the procurement entities, and manage the increased use of supplemental energy payments for PUC approved renewable energy projects.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

6. Video Franchising

Background. AB 2987 (Nunez, 2006), the Digital Infrastructure and Video Competition Act, created a program for issuance of state video franchises and established the Public Utilities Commission (PUC) as the administering agency for the program.

In administering AB 2987, the PUC will have to monitor broadband and video market developments, respond to federal policy changes impacting California, address formal complaints lodged by local governments, and initiate investigations surrounding complaints. Since AB 2987 requires applicants to provide data on a census block level, and there are over 7,000 census tracks in California, the PUC will need to begin tracking this application component with GIS mapping.

Governor's Budget. The Governor's Budget proposes $950,000 total, of which $850,000 is from the Public Utilities Commission Utilities Reimbursement Account and $100,000 is from the Public Utilities Commission Ratepayer Advocate Account. These funds would be for 10.5 positions to carry out the requirements of AB 2987, of which one position would be for the Division of Ratepayer Advocates.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

7. Increase Staff to Ensure Passenger Carrier Enforcement at Airports and Enhance Licensing Filings

Background. The Legislature enacted the Passenger Charter-Party Carrier's Act in 1961. The Act made the Public Utilities Commission (PUC) responsible for regulation of the operations and services of for-hire passenger carriers, which includes limousines. Limousine operators are among those who pay a fee to the PUC for regulation of the passenger carrier industry.

The Greater California Livery Association has expressed concerns to the PUC that numerous limousine drivers are operating without a license. Airports have similarly expressed concerns about unlicensed limousine drivers operating on airport property. Due to the high demand for chartered transportation at airports, there is suspected to be a concentration of unlicensed limousines at airports.

Governor's Budget. The Governor's Budget proposes $486,000 from the Public Utilities Commission Transportation Reimbursement Account for five permanent positions to conduct passenger carrier enforcement activities at California's major airports.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

8. Infrastructure Improvements and Repairs

Background. The Public Utilities Commission (PUC) headquarters are housed in a state-owned building located in San Francisco. The Department of General Services is responsible for completing the work.

The proposed projects are:

- Re-painting of the building's exterior
- Re-cultivation of the building's exterior walls
- Study with plans and specifications for seven elevator cars
- Re-design and replace two courtyard roll-up gates
- Comprehensive space plan study
- Structural study to evaluate cracks in women's restrooms
- Building electrical upgrades and replacements

Governor's Budget. The Governor's Budget proposes $3,078,000 for maintenance and repairs of the PUC's headquarters building in San Francisco.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

9. AB 2393 – Telecommunications Emergency Services

Background. The increased use of fiber optic cables for telephone service has brought about concerns that during blackouts fiber optic cable telephone customers cannot connect to 911 services. There are backup batteries installed in the homes of fiber optic telephone service customers, however, these customers may not be aware of the need to regularly check these batteries.

AB 2393 (Levine, 2006) requires the PUC to consider the need for performance reliability standards, and to develop and implement performance reliability standards, for backup power systems installed on the property of residential and small commercial customers by a provider of telephone services, upon determining that the benefits of the standards exceed the costs. In response to AB 2393, the PUC is proposing to: 1) conduct an investigation and issue a report on the standards for use of auto-dialers to notify the public of local emergencies; 2) conduct an investigation and issue a report on the reliability of service-provider installed backup power; and 3) conduct an investigation and report on the need for backup telecommunications power to ensure emergency functionality.

Governor's Budget. The Governor's Budget proposes $596,719 from the Public Utilities Commission Utilities Reimbursement Account for five 1-year limited-term positions to implement AB 2393.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

10. Implement Community Choice Aggregation Programs

Background. AB 117 (2002) created the Community Choice Aggregation (CCA) Program. The CCA allows cities and counties to aggregate the electric load of customers in their respective geographical service areas and purchase electricity on these customers' behalf. CCA allows the aggregators (cities or counties) to take over the energy procurement function from the utilities. This statute does not apply to publicly owned utilities.

To implement AB 117, the PUC will need to review tariff filings, coordinate with other proceedings, review registration and implementation plans, conduct outreach to local governments, and calculate cost responsibility surcharges for each CCA separately.

Governor's Budget. The Governor's Budget proposes $98,000 from the Public Utilities Commission Utilities Reimbursement Account for one permanent position to implement a new Community Choice Aggregation Program to allow cities and counties to aggregate the electric load of customers in their respective geographical service areas.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

11. Consulting on Water-Energy Linkages

Background. Water usage and energy in California are closely linked in that a large amount of energy is expended in pumping water and treating water for the end-use customer. The Public Utilities Commission (PUC) is proposing to study the amount of energy saved through end-user water conservation efforts.

Governor's Budget. The Governor's Budget proposes $100,000 from the Public Utilities Commission Utilities Reimbursement Account for consultant fees to understand the impacts of policies under development to encourage the conservation of energy through water conservation.

Staff Recommendation. Staff recommends the Subcommittee approve the budget proposal.

Discussion Items

12. Electricity Market Design

Background. The California electricity industry was deregulated in 1996. The 2000-2001 electricity crisis prompted the Legislature to pass, and the Governor to sign, emergency legislation AB 1X, which suspended some of the aspects of deregulation. Among the deregulation suspended was the ability of customers to sign up for direct access (competitive retail providers). These regulations will not be reinstated until 2014, when the Department of Water Resources electricity contracts expire.

Since the 2000-2001 crisis, the Public Utilities Commission (PUC) has been working on encouraging a “hybrid” market design. Currently, PUC staff is working on more stringent resource adequacy requirements and a capacity market structure.

Governor’s Budget. The Governor’s Budget proposes $408,000 from the Public Utilities Commission Utilities Reimbursement Account ($307,000 one time, $101,000 on-going) for one permanent position and consultant contracts.

The analyst will be working on a plan to reopen retail electric competition in California.

LAO Recommendation. The LAO thinks it is premature and beyond the jurisdiction of CPUC to begin investigation and evaluation of a market design without further statutory direction from the Legislature. The LAO therefore recommends the Legislature deny the budget request.

Staff Analysis. Reopening the California electric retail market to competition is a policy choice with great financial and market implications for California, electricity providers, and ratepayers. This discussion should take place in the policy process with legislation that could be debated by all Senators.

Staff Recommendation. Staff recommends the Subcommittee reject this budget proposal.

13. Increase Staff to Form a Federally Funded Critical Infrastructure Security Team to Protect California Infrastructure and Key Resources

Background. June 2006, the United States Department of Homeland Security (USDHS) released the National Infrastructure Protection Plan (NIPP). NIPP sets national priorities, goals, and requirements to effectively distribute funding and resources in the event of a terrorist attack or other disaster.

The PUC wants to create a Critical Infrastructure Security team within its Consumer Protection Division. This team would be responsible for ensuring that California utilities, railroads, and rail transit properties are equitably included in the plan. The NIPP does point out that state public utilities commissions are generally well-placed to handle these responsibilities.

Governor's Budget. The Governor's Budget proposes $500,000 in Federal Trust Fund for four permanent positions to staff a new critical infrastructure security team.

LAO Recommendation. The LAO finds the proposed duties of the new branch are often very broad, typically vague, and lacking a clear purpose. The PUC has stated that municipal utilities, currently not regulated by the PUC, would be included in this program. The inclusion of municipal utilities is an expansion of authority for the commission.

The LAO also finds that the federal funding proposed to support this new program is highly uncertain. According to the PUC, there is no certainty that federal funds will be allocated to this effort, and those federal funds the PUC has identified as potentially available may require matching state funds. Given the uncertainty of federal funding, the lack of clear duties, and an apparent expansion of the commission's jurisdiction without statutory authorization—the LAO recommends the Legislature deny the request.

Staff Analysis. Staff has requested information from the PUC as to how the department will work with the Department of Homeland Security so as not to duplicate tasks and act with the greatest efficiency possible in time of crisis. The PUC has indicated that it is in the process of drafting a memorandum of understanding (MOU) with the Department of Homeland Security, but that the MOU is not complete. Staff recommends holding this item open to give the PUC more time to respond to these questions.

Staff Recommendation. Hold open.

14. Data Center Restructuring

Background. After four disruptions to its data system over the course of three months, the Public Utilities Commission (PUC) hired TechProse (IT consultants) to investigate the disruptions of service, analyze the underlying causes, and develop an Information Services Branch Information Technology Strategic Plan. The improvements recommended in the plan will be conducted in three phases, the total cost of which is not known to the PUC.

Governor's Budget. The Governor's Budget proposes $765,000 from various special funds ($176,000 on-going, $589,000 one-time) for Phase I of the Information Technology Strategic Plan. Specifically, the funds would be used for:

- $70,000 – Conduct a data center redesign and expansion study.
- $25,000 – Perform a full review of the heating/ventilation air conditioning in the data center and closets.
- $150,000 – Purchase and install a dedicated emergency power backup system to its IT environment.
- $180,000 – Establish a dedicated development and testing lab.

- $150,000 – Perform a server/desktop network upgrade at the San Francisco headquarters office.
- $190,000 – Establish two new positions in the Network Administration Unit. The first position would be a Senior Information Systems Analyst Supervisory to add a mid-management layer and the second would be an Associate Information Systems Analyst to perform change management functions, such as fixes and software upgrades.

Staff Analysis. Many of the requested improvements to the information technology branch are not useful if conducted prior to the study on data center redesign and expansion. The study could recommend different approaches to the data center configuration and technology used that may make some of the upgrades proposed in this budget request outdated.

Also, in another budget request, titled *Infrastructure Improvements and Repairs*, the PUC indicated that they will use alternative funding mechanisms to purchase an $180,000 backup generator for the entire building. Funding a separate emergency power backup system for the IT environment only would be unnecessary given the other generator that will be purchased.

The PUC today has four fewer IT specialists than it did in 1996. However, the state's reliance on information technology has grown greatly since the 1990s as the public's reliance on the Internet as a source of information grows, and as nearly all agency workers use computers to complete some or all aspects of their job. Thus, increasing the number of IT workers at the PUC is warranted.

Given that many of the proposed repairs are too early to contemplate prior to the completion of the study, staff recommends reducing the funding to the data center redesign and expansion study, the HVAC study, and the two new positions.

Staff Recommendation. Staff recommends the Subcommittee provide $285,000 from the Public Utilities Commission Utilities Reimbursement Account for the data center redesign and expansion study; for performing a full review of the heating/ventilation air conditioning in the data center and closets; and for the two requested positions.

15. California Alternate Rate for Energy (CARE) Program

Background. The California Alternate Rate for Energy (CARE) Program allows qualifying low-income electricity and natural gas customers to receive a 20 percent discount on their utility bills. The discount is paid for by all other ratepayers. However, tenants of mobile homes and apartment complexes where electricity usage was not metered per customer but rather per complex, were not eligible.

In 2006, AB 2104 (Lieber) expanded the program to make tenants of mobile home and apartment buildings eligible by requiring the PUC to adopt rules by December 31, 2007, to improve the CARE application process for tenants of a mobile homes or apartment building. The application process improvement would take place by developing processes whereby electrical corporations and gas corporations are able to directly accept CARE applications from those tenants and to directly notify and provide renewal applications to tenants that are existing CARE customers.

Governor's Budget. The Governor's Budget proposes $189,000 from the Public Utilities Commission Utilities Reimbursement Account for two limited-term positions to develop and adopt new rules required by AB 2104.

Staff Analysis. AB 2104 states that the new CARE rules must be adopted by December 31, 2007 and that the requirements would be repealed on January 1, 2008. The PUC is requesting two-year positions, despite the fact that AB 2104 sets the work timeline as six months.

Staff Recommendation. Staff recommends the Subcommittee direct the PUC to redirect positions internally to cover the workload and reject the Governor's proposal.

16. Budget Bill Provisional Language: California Teleconnect Fund

Background. Public Utilities Code 280 requires the establishment of the California Teleconnect Fund program to provide discounted services to qualifying schools, libraries, hospitals and community-based organizations. For the last two years, the claims against the fund have exceeded revenues.

Proposed Language.

> Notwithstanding any other provision of law, upon request of the Public Utilities Commission, the Department of Finance may augment the amount available for expenditure in this item to pay claims made to the California Teleconnect Fund Administrative Committee Fund Program. The augmentation may be made no sooner than 30 days after notification in writing of the committee in each house of the Legislature that considers appropriations and the Chairperson of the Joint Legislative Budget Committee. The amount of funds augmented pursuant to the authority of this provision shall be consistent with the amount approved by the Department of Finance based on its review of the amount of claims received by the Public Utilities Commission from telecommunication's carriers.

Questions:

1. Why has the PUC not raised the teleconnect fee to make up the fund shortfall?

Staff Recommendation. Staff recommends the Subcommittee reject the budget proposal.

17. High Cost Fund B

Background. In October 1996, the PUC established a program to provide subsidies to larger telephone companies serving high cost areas. The purpose of the program was to reduce the disparity in rates charged by these telephone companies. The program is referred to as the

California High-Cost Fund-B Administrative Committee Fund (CHCF-B) Program. The authorizing legislation that established CHCF-B sunsets January 1, 2009, at which time the subsidies would be discontinued.

The CHCF-B is funded by a surcharge on telephone bills collected by telecommunications carriers. Customers who have services (such as "call waiting" or "caller ID") on their phones pay this charge on their bill. The budgeted surcharge rate—which is set administratively by the commission by resolution—has varied significantly from a high of 3.8 percent on the cost of services in 1999 to a low of 1.4 percent in 2002. Currently, the rate is 2 percent.

Chapter 847, Statutes of 2004 (SB 1276, Bowen), required PUC to conduct a review of the CHCF-B program by January 1, 2006. The review requirement was prompted by concerns of the commission's Office of Ratepayer Advocates about the program's cost-effectiveness. Specifically, the review was required to: (1) adjust subsidy payments to carriers to reflect updated operating costs and (2) evaluate whether subsidy levels could be reduced while still meeting the goals of the program. To date, this review has not been completed.

LAO Analysis. The LAO notes that program subsidies have been paid to such service carriers as the currently named Frontier, Verizon, and SureWest, among others. Though it is difficult to evaluate how the subsides have been used due to a lack of reporting by the commission, the program expenditures continue to serve such areas as Malibu, Roseville, and Elk Grove. While some of the geographic area covered under the program may have been difficult to reach and therefore were considered a higher cost area in 1996, these areas today may no longer be difficult to serve with new technologies.

Revenues and expenditures have varied widely as a result of these rate changes. In the first eight years of the program, over $3 billion in subsidies were paid to carriers, mostly four companies, to provide affordable rates in hard-to-service areas. In recent years, a substantial fund balance has developed in the program, as revenues have consistently exceeded expenditures. While the budget projects a $333.5 million balance in the fund at the end of the budget year, the balance would actually be much higher were it not for a $250 million loan to the General Fund made from the fund in 2002. (There is no specified repayment date for this loan.)

The LAO thinks that the magnitude of the fund balance projected to remain in CHCF-B at the end of the budget year, combined with the impending sunset of the CHCF-B program in 2009, affords the commission an opportunity to eliminate the surcharge that supports the fund for the remainder of the program's life. The LAO therefore recommends that the commission present a plan to the Legislature at budget hearings to phase out by January 1, 2008, the telephone bill surcharge that supports the fund.

The LAO notes that without the required report, it is difficult for the Legislature to evaluate the appropriateness of the proposed expenditures for subsidies. The LAO recommends PUC report at budget hearings on when it intends to deliver this report. Pending receipt of the report, the LAO recommends the Legislature withhold action on the overall program budget.

Staff Analysis. Staff agrees with the LAO that without the required report it is difficult to evaluate the appropriateness of the proposed expenditures for subsidies. However, staff does not agree with the LAO that the appropriate means for addressing the concern of the missing report is to withhold action on the program budget, as this would place sudden and unexpected monetary costs on the utilities providing phone service in high cost areas.

Staff Recommendation. Staff recommends the Subcommittee direct the PUC to report back on a quarterly basis on their progress toward completing the required report.

18. Division of Ratepayer Advocates – Auditors

Background. The Division of Ratepayer Advocates (DRA) is an independent entity within the California Public Utilities Commission. DRA is charged with advocating on behalf of the customers of regulated utilities to ensure the lowest possible utility rates, consumer protection, service quality, and safety and reliability. Unique to DRA is participation in all PUC proceedings where DRA represents consumer interests. DRA works on energy matters (electric and gas), water rates and services, and telecommunications.

DRA undertakes numerous advocacy activities on behalf of utility consumers. Among these advocacy activities are audits of all proposed utility rate increases and past expenditures by providers.

Staff Recommendation. Staff recommends the Subcommittee increase the DRA budget by $300,000 for 3 auditors from the Public Utilities Commission Ratepayer Advocate Account. Staff also recommends the Subcommittee adopt the following budget bill language:

> The amount of $300,000 is for auditor positions at the Division of Ratepayer Advocates within the Public Utilities Commission.